

Message Text

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ACTION ARA-14

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FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC IMMEDIATE 6823

INFO AMEMBASSY CARACAS IMMEDIATE

USMISSION GENEVA

AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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CARACAS: PLEASE PASS PRESIDENT'S PARTY; STATE PASS TREASURY
USMISSION GENEVA FOR USMTN

E.O. 11652: N/A

TAGS: EGEN, EFIN, BR

SUBJECT: FINANCE MINISTER AND US TREASURY STATEMENTS IN
PRESS ON EVE OF PRESIDENT'S VISIT

1. SUMMARY. IN BRIEFING PRESIDENT GEISEL ON UPCOMING
VISIT BY PRESIDENT CARTER, FINANCE MINISTER REPORTEDLY
SAID THAT USG IS PREPARED TO ACCEPT AN "INJURY CLAUSE"
IN AN EXPORT INCENTIVES CODE UNDER THE MTN. IN THAT
CASE, SIMONSEN ALLEGEDLY IS WILLING TO COMMIT BRAZIL
TO THE GRADUAL ELIMINATION--ANNUAL AVERAGE OF FOUR
PERCENT REDUCTION OVER FIVE YEARS--OF CERTAIN SUBSIDIES
TO EXPORTS. RECENT INTERVIEW WITH TREASURY ASSISTANT
SECRETARY BERGSTEN ALSO REPORTED IN ESTADO DO SAO PAULO
REFERS TO URGENCY OF MULTILATERAL AND/OR BILATERAL AGREEMENT
ON COUNTERVAILING DUTIES. THE LATTER ARTICLE CONCLUDED
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"CATASTROPHIC CONSEQUENCES FOR THE BRAZILIAN ECONOMY"
WOULD RESULT IF THE TWO GOVERNMENTS DID NOT RAPIDLY
ARRIVE AT AN AGREEMENT. THESE PRESS ACCOUNTS HAVE
SPECIAL SIGNIFICANCE ON THE EVE OF THE PRESIDENT'S
ARRIVAL, WITH SIMONSEN'S PARTICIPATION SCHEDULED FOR THE
SECOND BILATERAL ON MARCH 30. END SUMMARY.

2. SUNDAY MARCH 26 ESTADO DO DAO PAULO CARRIED ONE ARTICLE ENTITLED "AMERICAN GOVERNMENT ACCEPTS BRAZILIAN POSITION IN THE GATT" AND ANOTHER BASED ON AN EXCLUSIVE INTERVIEW WITH TREASURY ASSISTANT SECRETARY BERGSTEN ENTITLED "COUNTERVAILING DUTIES ARE THREAT TO BILATERAL RELATIONS." THE FIRST ARTICLE PURPOSTS TO REFLECT THE BRIEFING GIVEN BY FINANCE MINISTER SIMONSEN WHEN PRESIDENT GEISEL MET WITH THE ECONOMIC MINISTERS ON MARCH 22 TO REVIEW THE STATE OF US-BRAZIL ECONOMIC AND COMMERCIAL RELATIONS IN PREPARATION FOR PRESIDENT CARTER'S VISIT. SIMONSEN REPORTEDLY SAID THE DEPARTMENT OF TREASURY HAD DECIDED TO ACCEPT AN "INJURY CLAUSE" IN THE EXPORT INCENTIVES CODE TO BE NEGOTIATED IN THE MTN. THE PROOF OF "SERIOUS INJURY" WOULD BE SUBJECT TO DETERMINATION BY AN INTERNATIONAL ORGANIZATION RATHER THAN, AS THE ARTICLE POINTS OUT, BY THE US INTERNATIONAL TRADE COMMISSION. SIMONSEN REPORTEDLY SAID THAT THE US AND THE FRG ARE PREPARED TO ACCEPT "THE BRAZILIAN THESIS" THAT FISCAL AND CREDIT INCENTIVES WOULD NOT NECESSARILY AND IPSO FACTO BE CONSIDERED SUBSIDIES UNDER THE CODE. THE ARTICLE ALSO CLAIMS THAT SIMONSEN SAID THAT IN CASE THESE PROVISIONS WERE INCORPORATED INTO THE CODE BRAZIL WOULD COMMIT ITSELF TO A FOUR PERCENT AVERAGE ANNUAL REDUCTION OF CERTAIN TYPES OF INCENTIVES OVER A FIVE-YEAR PERIOD.

3. BERGSTEN INTERVIEW WITH ESTADO DO DAO PAULO'S LIMITED OFFICIAL USE

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WASHINGTON CORRESPONDENT RUY BARBOSA REFLECTS THE CLOSE AND FREQUENT CONSULTATIONS BETWEEN THE TWO GOVERNMENTS IN INTERNATIONAL ECONOMICS AREAS. AT THE SAME TIME THE WRITER HIGHLIGHTED BERGSTEN'S CONCERN THAT THE US AND BRAZIL REACH AN AGREEMENT "EITHER MULTILATERALLY OR BILATERALLY" ON COUNTERVAILING DUTIES; UT THAT COMPLEMENTARY BILATERAL AGREEMENTS WOULD PROBABLY BE NECESSARY IN ANY EVENT. BARBOSA CONCLUDED: "FOR BRAZIL, WHOSE DEVELOPMENT DEPENDS CRITICALLY ON THE INCREASED EXPORT OF MANUFACTURED AND SEMI-MANUFACTURED GOODS, RESTRICTIONS APPLIED AGAINST THE ENTRY OF ITS PRODUCTS IN THE NORTH AMERICAN MARKET COULD BE THE EQUIVALENT OF AN ECONOMIC DEATH SENTENCE."

4. COMMENT: WHEN A US TREASURY TEAM PRESSED THE GOB A MONTH AGO FOR ATTENTION TO A BILATERAL AGREEMENT ON COUNTERVAILING DUTIES, THE GOB RESPONDED THAT IT WOULD CONSTITUTE "PUBLIC REPUDIATION AND LACK OF CONFIDENCE" IN THE ON-GOING MTN. DESPITE THE TREASURY TEAM'S ARGUMENT THAT WORK SHOULD BEGIN NOW SINCE A BILATERAL WOULD PROBABLY BE NECESSARY FOR TRANSITION PURPOSES EVEN WITH AN EXPORT INCENTIVES CODE NEGOTIATED THROUGH THE MTN, THE GOB HELD FIRM THAT

SUFFICIENT TIME WOULD REMAIN TO PRUSUE BILATERAL
DISCUSSIONS AFTER CONCLUSION OF THE MTN. IN REGARD
TO SIMONSEN'S ALLEGED BRIEFING OF PRESIDENT GEISEL,
THE EMBASSY FINDS SIGNIFICANT BOTH HIS REPORTED
COMMENT ON THE CURRENT STATUS OF THE TALKS ON AN
EXPORT INCENTIVES CODE AND HIS ALLEGED READINESS TO
COMMIT BRAZIL TO A GRADUAL PHASEOUT OF CERTAIN OF
ITS EXPORT INCENTIVES AFTER THE CODE IS AGREED UPON. EMBASSY IS
REPORTING THESE PRESS ACCOUNTS IN VIEW OF SIMONSEN'S SCHEDULED
PARTICIPATION IN THE BILATERAL MEETING BETWEEN THE
TWO PRESIDENTS ON MARCH 30. WE DO NOT, HOWEVER, HAVE
ANY BASIS FOR JUDGING THE ACCURACY OF THE REPORT ON
SIMONSEN'S BRIEFING, ALTHOUGH THERE ARE INDICATIONS THAT
THE GOB IS STUDYING ALTERNATIVES TO THE PRESENT EXPORT INCENTIVE
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